# HOUSING MARKET OUTLOOK
## Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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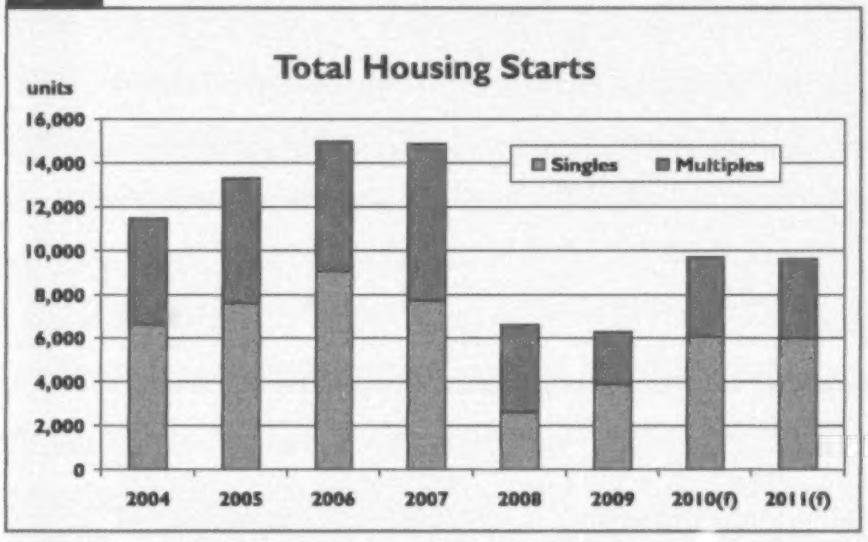
## NEW HOME MARKET

### Housing Market Moderates in 2011

Total housing starts across the Edmonton CMA will reach 9,700 units in 2010, representing a 54 per cent increase over 2009. Activity levels will remain relatively stable in the coming year with production close to the 9,600 mark. A growing economy will help to spur demand for new homes but higher prices and a well-supplied resale market will prevent any overall gains in production levels.

Total starts to the end of September were more than double the amount started in the first nine months of 2009. However, look for production to cool during the fourth quarter due to inventory concerns and competition from existing units. In contrast, activity last year strengthened in the final three months. Given the rebound

Figure 1




Source: CMHC, CMHC Forecast (f)

1 The forecasts included in this document are based on information available as of October 08, 2010.

**Table of Contents**

1 New Home Market
3 Resale Market
4 Rental Market
5 Economic Outlook
6 Mortgage Rate Outlook
8 Forecast Summary

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in starts toward the end of 2009, builders will also be competing with comparatively stronger numbers in the latter months of the year. Construction levels in 2011 will lag 2010's activity in the first half but improve as the year progresses. The strength of this rebound will be contingent upon higher net migration, increased full-time job growth, rising incomes, and reduced new and existing home inventories.

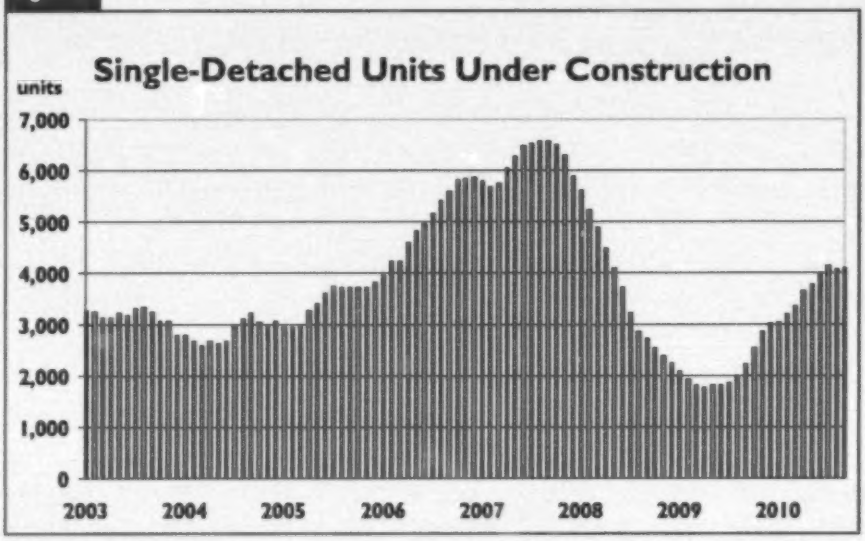
## Single-Detached Starts to Remain Steady in 2011

Single-detached starts in the Edmonton region will top 6,000 units this year for the first time since 2007. Next year, overall volumes will approach 2010 levels, assuming the economic recovery remains on track and inventory levels for both new and resale units perform as expected.

During the first nine months of 2010, builders maintained a healthy lead over 2009, a year that began slowly but saw production levels ramp up in the final five months of the year. Momentum is expected to slow over the fourth quarter of 2010 and in the early months of next year as builders contend with a competitive resale market and higher new unit inventories. As 2011 progresses, a more balanced resale market combined with reduced new unit supply will allow for increased production in the second half. A key condition for this mid-year upturn will be firming resale prices, which should signal prospective new home buyers that now is a good time to trade-up.

Supply levels for single-detached units (which include inventory plus units under construction) have been on an upward trend since December 2009 due to the increase in monthly starts which began in the third quarter

Figure 2




Source: CMHC, Sept. 2010

of last year. While inventory levels have edged up only slightly in recent months, units under construction in September were double this time last year. While close to 20 per cent of single-detached homes in progress are considered spec units, many of the presold dwellings are conditional sales which require the purchasers' existing homes to sell before the new home deals can close. With the resale market favouring buyers this fall, builders will be facing increased challenges to both secure presales and close conditional sales. Accordingly, inventories are expected to move higher in the near term, yet will remain lower than the heightened level experienced in 2008 and early 2009.

Single-detached absorptions have improved notably in 2010 due to the upswing in completions which began during the first quarter. However, in recent months completions have started to outpace absorptions, putting moderate upward pressure on inventories. Spec building will be curtailed into the new year as builders work to keep inventories in check and look for signs that the resale market has returned to more balanced conditions.

## Modest Gains for New House Prices

On a year-to-date basis, single-detached absorbed prices to the end of September decreased by close to 13 per cent to near $484,700 across Metro. Units priced under $450,000 gained market share while those priced above $650,000 dropped from 21 per cent of absorbed units in the first eight months of 2009 to just over 11 per cent this year. In many cases, this shift represents sale price reductions that occurred when construction began late in 2009. The Statistics Canada New House Price Index (NHPI) remained in negative territory (in terms of year-over-year change) during all of 2009 and the first five months of 2010. On a month-over-month basis, average and median absorbed prices have been improving in recent months and should move above 2009 levels during the fourth quarter.

The outlook for single-detached absorbed prices going forward into 2011 calls for modest growth. With resale price growth expected to remain weak in the coming months, builders will be under pressure to hold the line on price gains in order to remain competitive with existing units. An expected uptick in completed and unabsorbed new singles over the winter will also keep a lid on price growth this spring. CMHC is forecasting an average absorbed price of $488,500 in 2011, representing an increase of one per cent over this year's average of $483,500.

Figure 3

Source: CMHC, Sept. 2010

## Multiple Starts Hold Steady in 2011

Multiple unit starts across Greater Edmonton will approach 3,650 units in 2010, representing an increase of 51 per cent over 2009. Apartment starts fell to very low levels last year due to developer concerns over rising apartment vacancy rates and elevated condominium inventories.

This year's expected tally will still be well below the ten-year annual average of nearly 4,700 units that were recorded from 2000 to 2009. In 2011, look for multi-unit starts of close to 3,600 units as developers seek to reduce inventories and ramp-up the presales required to finance new projects.

Multiple unit supply (inventory plus units under construction) decreased on a month-over-month basis during the first nine months of 2009 but has remained fairly steady since then, averaging close to 5,900 units so far this year. Inventories peaked in September 2009 but have remained elevated for the past year. At 605 units, condominium apartments represented the largest component of the completed and unabsorbed multiple units across the region at the end of August. Of these, about 43 per cent were priced between $200,000 and $300,000. Meanwhile, the increase in multi-unit starts this year has left the under-construction count at levels close to a year prior. With the resale condominium market favouring buyers this fall, the prospect for a quick reduction in the current inventory appears unlikely. This will impede presales and hamper new projects attempting to break ground in the early months of 2011.

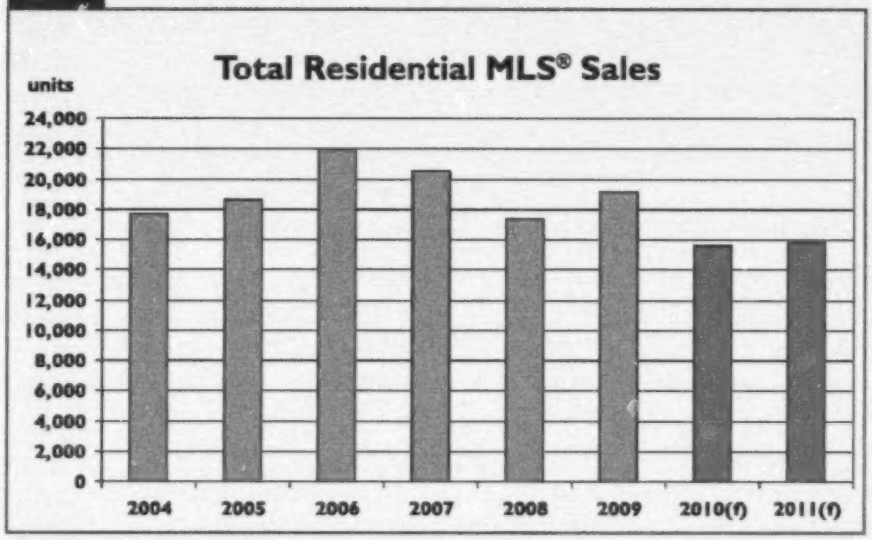
Multiple unit absorptions in the first eight months of 2010 were well below the levels reported during the same time in 2009. However, this was largely a result of the sizable decreases in completion levels associated with the reduction in starts last year. At current absorption rates, the existing supply would last around 18 months. To the end of August, over three-quarters of row condominiums have been absorbed this year priced between $200,000 and $300,000 while approximately 65 per cent of apartments have been priced $200,000 and $400,000.

# RESALE MARKET

## Home Sales below Historic Levels

Sales in Edmonton's existing home market will decrease by 18.5 per cent this year to fewer than 15,600 units. This performance will mirror the previous low point reported in 2002 and is well below the ten-year average for sales from 2000 to 2009 of around 17,750 units. With buyers' market conditions expected to persist into the early months of 2011, look for improvements to be modest, with total sales close to 15,850 units. Many prospective buyers will delay purchasing until they are convinced prices are no longer moving lower. While sales should improve in the second half of 2011, they will be restrained firming prices.

Figure 4




Source: RAE, CMHC Forecast (f)

Active listings in September were 43 per cent higher than the same time last year due to reduced sales and higher new listings since the second quarter. While active listings have stabilized in the third quarter, sales continue to trend lower. On a seasonally adjusted basis, residential sales reported by the Realtors Association of Edmonton (RAE) have been on a downward trend since the fourth quarter of 2009. Despite a relatively strong first quarter, MLS® sales in the first nine months of the year were 15 per cent below the same period of 2009.

The sales-to-active listings ratio stood at just under 14 per cent in September which is considered within buyers' market range. Balanced market conditions are expected to return by the spring of 2011 as improved economic conditions help to bolster demand. However, with less than one in five active listings selling per month, prices will be under downward pressure for the balance of this year before experiencing a slow recovery in 2011.

## Firming Resale Home Prices in 2011

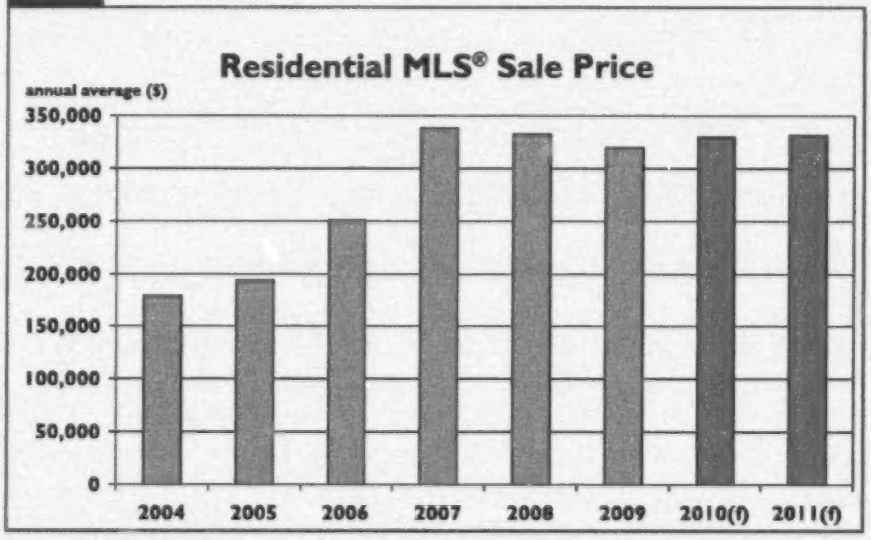
The average residential resale price reported on RAE's MLS® will rise by three per cent in 2010 to $330,000. However, most of these gains will have occurred under the balanced market conditions that were in place during the early months of the year. With the buyer gaining the advantage in the second quarter, prices began to soften on a month-over-month basis as sellers accepted reduced prices to ensure a reasonably quick sale. For example, year-to-date average prices peaked in June at $334,074, but have been trending downward since then. CMHC expects resale prices to rebound by the second quarter of 2011, assuming the current buyers' market gives way to more balanced conditions in the spring. However, the gains will be relatively moderate so that the twelve-month average for 2011 will only slightly exceed the average for the current year.

# RENTAL MARKET

## Vacancies to Decrease in 2011

Apartment vacancy rates across Greater Edmonton will decrease in the second half of 2010 with further reductions anticipated next year as the economy continues to improve. CMHC's April 2010 Rental Market Survey found a Metro-wide apartment vacancy rate of 5.2 per cent compared

Figure 5




Source: RAE, CMHC Forecast (f)

with 4.7 per cent a year prior. While seasonal factors often lift the vacancy rate in the spring survey, CMHC is anticipating tighter conditions this fall. Look for a vacancy rate this October of close to 4.0 per cent compared with an average 4.5 per cent in October 2009. By October 2011, vacancies will have decreased to around 3.5 per cent.

Changes in Edmonton's vacancy rate will be largely demand-driven although new supply associated with investor-owned condominiums entering the secondary rental market will also be a factor. Vacancies will fall during the second half of 2010 as fewer tenants exit the rental market for homeownership and increased in-migration helps to bolster occupancy levels. In 2011, a growing economy will help to reduce unemployment and encourage more newcomers to the region. While home ownership will also become more attractive, the rental market will nonetheless experience a net gain in demand next year helping vacancy rates to tighten further. Condominium completions will see some moderation over the forecast period and this will reduce the new supply of investor-owned units available in the secondary rental market.

## Rents to Move Upward in 2011

With apartment vacancies expected to peak this spring, rental rates should start firming in the months ahead. Both the fall 2009 and spring 2010 CMHC surveys reported year-over-year reductions in rent levels. Since vacancies across Metro will have averaged over four per cent for much of 2010, CMHC's October survey is expected to show continued, albeit moderating, rent decreases. An average two-bedroom apartment will rent for $1,000 this October, representing a $15 per month decrease from the October 2009 level. As vacancies drop to around 3.5 per cent by the fall of 2011, a typical two-bedroom unit will rent for close to $1,020, representing a $20 per month average increase over the current year.

Figure 6

Source: CMHC, CMHC Forecast (f)

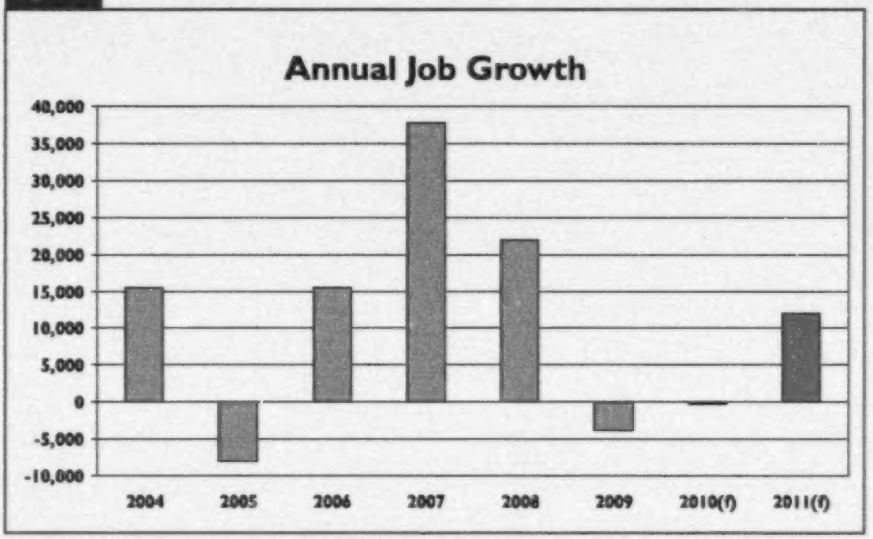
With vacancies rising in recent years, more landlords have been using incentives to shore-up occupancy levels. In October 2009, for example, close to 23 per cent of Edmonton's rental buildings offered some type of incentive, the highest level since 2004. Incentives often include benefits such as one month free rent or two-year leases (with locked in rents), extra appliances, free cable TV, parking or high-speed internet. As vacancies ease in the months ahead, expect fewer buildings to be offering incentives.

# ECONOMIC OVERVIEW

## Economic Recovery Remains on Track in 2011

While the economy of the Alberta Capital region has shown evidence of improvement in areas such as construction in 2010, unemployment remains high compared with pre-recession levels. Total employment levels this year will largely mirror the annual average that occurred in 2009, but should improve into 2011. Last year, the region saw average employment levels decrease by 0.6 per cent. In the first nine months of 2010, employment remained below the previous year but anticipated gains during the fourth quarter will bring the annual average close to 2009 levels. Next year, job creation should average just below two per cent, representing a net increase in annual employment of around 12,000 jobs.

Figure 7




Source: Statistics Canada, CMHC Forecast (f)

Population growth, which is estimated to have slowed in 2010, will experience moderate gains in the coming year due to an uptick in total net migration. The more than 12,000 newcomers next year will be attracted by falling unemployment, increased job creation and improved income growth. Average weekly earnings have continued to rise across Greater Edmonton in 2010 despite high unemployment, but the rates of increase have been relatively modest compared with years prior. As unemployment edges downward in 2011, wage gains should gather strength helping to bolster consumer spending on goods and services.

The province's energy sector will provide the major impetus to growth in Edmonton's manufacturing industries and its service sector. With oil prices expected to remain stable or move higher in 2011, the outlook for investment in oil sands mining and processing facilities remains optimistic. Heavy oil production has also been ramping up and is expected to bolster economic activity in North-central and North-eastern Alberta. Further changes to the province's royalty regime in 2011 should translate into higher drilling activity although continued softness in natural gas prices may counter some of these gains. Nonetheless, the oilfield servicing industries in the area are forecast to enjoy improved earning and employment levels in the coming months.

Non-residential construction has been bolstered in the past two years by government investment on capital projects, but some of these infrastructure dollars will be curtailed in the coming year.

## MORTGAGE RATE OUTLOOK

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

| Forecast Summary<br>Edmonton CMA<br>Fall 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010f | % chg | 2011f | % chg |
| **Resale Market** | | | | | | | |
| MLS® Sales | 20,427 | 17,369 | 19,139 | 15,600 | -18.5 | 15,850 | 1.6 |
| MLS® New Listings | 40,708 | 40,059 | 30,696 | 33,000 | 7.5 | 34,000 | 3.0 |
| MLS® Average Price ($) | 338,636 | 332,852 | 320,378 | 330,000 | 3.0 | 331,500 | 0.5 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 7,682 | 2,613 | 3,897 | 6,050 | 55.2 | 6,000 | -0.8 |
| Multiples | 7,206 | 4,002 | 2,420 | 3,650 | 50.8 | 3,600 | -1.4 |
| Starts - Total | 14,888 | 6,615 | 6,317 | 9,700 | 53.6 | 9,600 | -1.0 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 438,866 | 511,989 | 543,243 | 483,500 | -11.0 | 488,500 | 1.0 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 438,866 | 511,989 | 543,243 | 428,000 | -21.2 | 432,000 | 0.9 |
| New Housing Price Index (% chg.) | 32.1 | 1.0 | -11.2 | -0.5 | - | 1.0 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 1.5 | 2.4 | 4.5 | 4.0 | - | 3.5 | - |
| Two-bedroom Average Rent (October) ($) | 958 | 1,034 | 1,015 | 1,000 | - | 1,020 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 6.90 | 6.70 | 4.02 | 3.47 | - | 3.20 | - |
| Mortgage Rate (5 year) (%) | 7.07 | 7.06 | 5.63 | 5.59 | - | 5.20 | - |
| Annual Employment Level | 599,100 | 621,100 | 617,300 | 617,000 | 0.0 | 629,000 | 1.9 |
| Employment Growth (%) | 6.7 | 3.7 | -0.6 | 0.0 | - | 1.9 | - |
| Unemployment rate (%) | 3.8 | 3.7 | 6.7 | 7.0 | - | 6.4 | - |
| Net Migration [1] | 17,632 | 19,822 | 12,500 | 11,205 | -10.4 | 12,100 | 8.0 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).
(1) The 2009 migration data is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 08, 2010.

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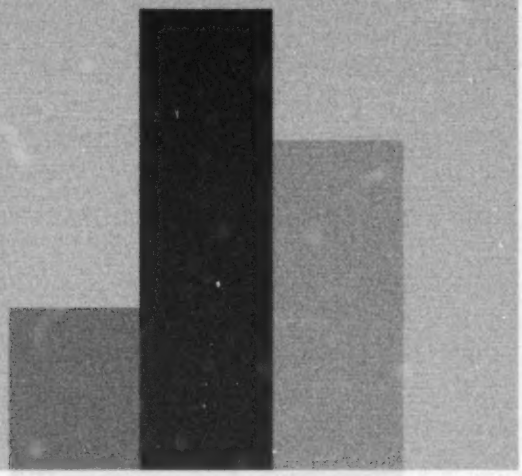

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